

Message Text

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ACTION EA-14

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E.O. 11652: N/A

SUBJ: FINMIN FUKUDA'S BUDGET STRATEGY

SUMMARY: FOLLOWING ARE EMBASSY'S INITIAL IMPRESSIONS OF BUDGET STRATEGY FUKUDA MAY FOLLOW GIVEN UNCERTAIN ECONOMIC PROSPECTS (WHICH REPORTED SEPTTEL).

1. FUKUDA, LONG-TERM CRITIC OF ECONOMIC GROWTHMANSHIP, HAD BECOME INCREASINGLY VOCAL OVER PAST MONTHS IN CRITICISM OF TANAKA GOVERNMENT. HE HAD CHARGED THAT GOJ WAS GIVING PRIORITY TO LARGE GOVERNMENT SPENDING AND NOT SUFFICIENTLY CONTROLLING INFLATION, JAPAN'S NUMBER ONE ECONOMIC PROBLEM. IN AN INTERVIEW ONLY TWO WEEKS AGO, FUKUDA EMPHASIZED THAT MONETARY POLICY ALONE WOULD BE INEFFECTIVE IN CURBING DOMESTIC SPENDING PROPENSITIES AND THAT THE FORTHCOMING BUDGET WOULD HAVE TO ASSUME A FAR LARGER BURDEN IN FIGHTING INFLATION. ALREADY THERE IS BUREAUCRATIC SUPPORT FOR DELAYING CERTAIN LONG-TERM PUBLIC WORKS PROJECTS (E.G. BRIDGES, RAILROADS, HIGHWAYS). FUKUDA MAY WELL HOLD THE PERCENTAGE INCREASE IN BUDGET SPENDING BELOW PROSPECTIVE PERCENTAGE RISE IN MONEY GNP. PRESENT CUTBACKS IN OIL IMPORTS ALONG WITH UNCERTAINTY OF THE ECONOMIC IMPACT GIVES FUKUDA ADDITIONAL ARGUMENTS FOR

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MINIMIZING SIZE OF BUDGET INCREASE. IF IN THE MONTHS AHEAD,

PACE OF ADVANCE SHOULD FALTER, FUKUDA COULD REVERSE HIS OBJECTIONS TO TANAKA'S DESIRE FOR A VERY SUBSTANTIAL PERSONAL INCOME TAX CUT PRIOR TO THE ELECTION MID NEXT YEAR. ON THE OTHER HAND, IF THE ECONOMY SHOWS LITTLE OR NO REAL GROWTH BUT CONTINUED PRICE INFLATION, FUKUDA WOULD HAVE CHOSEN CORRECT ANTI-INFLATIONARY STRATEGY.

2. FUKUDA WILL HAVE STRONG UPHILL FIGHT TO CONVINCE CABINET COLLEAGUES TO TRIP BUDGET REQUESTS. ALREADY CONSIDERABLE PORTION OF BUDGET CONSISTS IN UNCONTROLLABLE EXPENDITURES, SOME OF WHICH (E.G. TRANSFERS TO LOCAL GOVERNMENTS) TIED TO GROWTH OF TAX RECEIPTS. GOJ ALSO COMMITTED TO LARGER BUDGETARY BURDEN AS RESULT OF HIGHER RICE SUBSIDIES.

3. FOLLOWING ARE SELECTED HIGHLIGHTS OF FUKUDA'S VIEWS GIVEN IN EXCLUSIVE INTERVIEW WITH ASAHI SHIMBUN: NOW IS THE TIME TO CONVERT FROM A HIGH GROWTH RATE COURSE TO A STABILIZED GROWTH COURSE... CALMING THE MOUNTING INFLATION IS THE TOP PRIORITY QUESTION. IT IS NOW THE TIME TO "STOP AND THINK." ...THE HIGH ECONOMIC GROWTH RATE COURSE FOLLOWED BY OUR COUNTRY HAS NOW COME UP AGAINST THE THREE WALLS OF PRICES, INTERNATIONAL ACCOUNTS AND RESOURCES, REACHING ITS FULL LIMIT. WHEN THESE RESTRICTIVE FACTORS ARE CONSIDERED, IT IS ABSOLUTELY NECESSARY TO RESTRICT TOTAL DEMAND...I AM OPPOSED TO GOVT CONTROLS. IN THE CASE OF OIL, HOWEVER, TEMPORARY CONTROLS CAN'T BE HELPED BECAUSE IT IS AN "EMERGENCY SITUATION." THE GOVT MUST SHOW ITS DETERMINATION TO CONTROL PRICES IN ORDER TO PREVENT THE PEOPLE FROM CORNERING THE MARKET AND HOARDING SUPPLIES...FUKUDA'S VIEWS ON FISCAL POLICY WERE: 1) LONG-RANGE PLANS FOR INVESTMENT IN PUBLIC UTILITY PROJECTS, SUCH AS THOSE OF THE JAPANESE NATIONAL RAILWAYS AND HIGHWAYS WILL BE TEMPORARILY SHELVED UNTIL THE INFLATION SUBSIDIES, 2) NO MEASURES WILL BE TAKEN TO GOAD THE ECONOMY IN ORDER TO INFLUENCE THE UPPER HOUSE ELECTION NEXT YEAR. ACTUALLY, THROUGH ANTI-INFLATION MEASURES, WE WILL WORK TO RESTORE CONFIDENCE IN THE GOVT, 3) HOWEVER, WE WOULD LIKE TO BE FULLY WATCHFUL OF AN EXCESSIVE RECESSION RESULTING FROM CLAMPING DOWN ON THE ECONOMY.

4. FOLLOWING IS REVISED JFY 73 BUDGET BASED ON FIRST
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SUPPLEMENTAL ANNOUNCED ONE WEEK AGO AND TO BE VOTED IN FORTHCOMING DIET SESSION, WHICH SUGGESTS SOME AUTOMATIC DAMPENING EFFECTS OF FISCAL SYSTEM. TAX RECEIPTS PLUS STAMP REVENUE JFY 73 NOW ESTIMATED AT YEN 12,586.6 BIL WHICH UP 37.9 PERCENT OVER JFY 72. INCLUDING NEW SUPPLEMENTAL EXPENDITURES, GENERAL ACCOUNT EXPENDITURES UP 27.8 PERCENT (WHICH STILL VERY LARGE BUT LESS THAN RECEIPTS) AND ISSUANCE OF BONDS NOW CUT TO YEN 1,810 BIL WHICH BELOW YEN

2,310 BIL IN JFY 72.
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